

WASHINGTON STATE INVESTMENT BOARD

Audit Committee Meeting Minutes

February 4, 2003

The Audit Committee met in open public session at 10:31 A.M. at the Washington State Investment Board (WSIB) office at 2424 Heritage Court SW, Olympia, Washington.

Committee Members Present: Mike Murphy, Chair
 Jeff Hanna
 George Masten
 Bob Nakahara
 Lee Ann Prielipp

Others Present: Joe Dear
 Gary Bruebaker
 Les Brodie
 Beth Vandehey
 Alicia Markoff
 Sandie Joudrey
 Kristi Walters

Jeff Lane, Senior Assistant Attorney General
Darren Bennett, Office of the State Auditor
Steve Wendling, Office of the State Auditor

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair Murphy called the meeting to order at 10:31 A.M., and identified members present.

ADOPTION OF MINUTES – DECEMBER 4, 2002

Chair Murphy noted the time correction on page six of the minutes as 10:56 A.M., versus P.M.

Ms. Prielipp moved to adopt the amended minutes of the December 4, 2002, Audit Committee meeting. Chair Murphy seconded and the motion passed unanimously.

[Mr. Masten was in attendance at 10:34 A.M.]

FISCAL YEAR 2002 STATE AUDIT REPORT EXIT CONFERENCE

Mr. Darren Bennett, in charge of the Fiscal Year 2002 State Audit of the WSIB, introduced himself and his supervisor, Mr. Steve Wendling. Mr. Bennett congratulated the WSIB on its clean audit; the eleventh straight year with no findings. The WSIB's record is the highest among state agencies, tied with the Department of Revenue. Mr. Bennett stated that there were no management items to report. Mr. Bennett stated that the report covered the period of July 1, 2001, through June 30, 2002. The audit scope considered the following areas: risk of theft or fraud by employees or Board members; public sensitivity; accountability; asset safeguarding; general compliance issues applicable to all state agencies; unique WSIB issues; and financial activity related to the Comprehensive Annual Financial Report.

Mr. Bennett noted the nine high-risk areas that were reviewed and described the audit methods used to examine each of the areas, which were briefly described in the Committee packet. Chair Murphy asked if the audit allowed for any margin of error, to which Mr. Bennett responded that a materiality level is considered. Mr. Bennett also shared that this was the first year that all WSIB managers returned their independent confirmation data sheets for the audit.

Mr. Bennett noted that there were some minor issues within the WSIB's administration of personal service contracts, for which recommendations were made. Mr. Bennett indicated that all of these items were resolved or in the process of resolution. Chair Murphy questioned subsection 4 of the personal service contracting area regarding evaluation criteria missing from a file, and stated that evaluation criteria are listed in the Request for Proposal (RFP) document. Mr. Bennett agreed to find out which file was examined in the audit and report back.

Mr. Nakahara asked why the auditor's recommendations within the exit conference document did not rise to a management letter level. Mr. Bennett explained that audits have a three-tiered reporting process, the first of which is an audit finding, followed by a formal management letter to document an

issue, and, for minor areas, recommendations that are given informally to the responsible manager and discussed in detail with management at the exit conference. Mr. Bennett stated that the recommendations made in the exit document did not rise to a management letter level, but advised that these same areas would be examined again during the next audit. Mr. Hanna asked some general questions regarding the RFP process. Mr. Bennett responded that processes for personal service contracts are outlined within the State Administrative and Accounting Manual.

Mr. Hanna questioned what the auditors look at within the conflict of interest area. Mr. Bennett explained that both the Offices of the State Auditor and Attorney General look at this area. Mr. Bennett described that, for the audit, a vendor report is run from the Fastrack database and cross-referenced against F-1 filings with the Public Disclosure Commission. Any investments made by Board members or staff with WSIB vendors would be examined, as well as excessive investments made with any single company. Mr. Bennett also responded affirmatively to Chair Murphy's question as to whether or not the WSIB policy regarding individual Board and staff investments is analyzed as a part of the audit process.

Chair Murphy requested that audit staff attend the February Board meeting in case there are questions from Board members, but stated that a formal presentation is not needed.

Ms. Prielipp moved that the Audit Committee accept the Fiscal Year 2002 State Audit Report and forward it to the Board. Mr. Masten seconded and the motion passed unanimously.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 10:53 A.M.